PRIME MINISTER

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INTEREST RATES

Mr Whitlam, Mr Hayden and Mr Hurford will not commit themselves to the Government's present policy of progressively lowering interest rates through the rest of this financial year because it is an implicit part of their plan to raise them. They would simply have no option, given the totality of their economic proposals. They know this only too well.

The inevitability of higher interest rates under Labor can be seen from the statement published yesterday by the Treasurer, Mr Howard, in which he analyses and costs Labor's proposals.

Under Labor we could well see an increase in this year's Government deficit in the order of $1200 million. That is an increase, in just six months, of about 50 percent in the deficit.

A budgetary expansion of this order would shatter confidence of overseas and Australian businessmen in Australia's investment prospects.

For most of this year investors have been expecting both inflation and interest rates to continue falling through 1978. These expectations would be destroyed by the sudden change in fiscal and monetary policy that Labor would introduce.

Far from investors wanting to go on buying Government securities, they would rapidly start selling them. This would be immediately reflected in higher market interest rates. In order to try to stem the tide, Labor would have to let interest rates rise. To try to fund the mounting deficit, Labor would have to try to sell more bonds, putting further pressure on interest rates.

By mid-1978, we could expect interest rates of up to 12 percent. This would be disastrous for the now expanding investment in plant, machinery, and factories. It would send the home building industry into a downspin.

Instead of being able to look forward to a $10 a week saving in interest rate payments on mortgages, home buyers would be paying $10 a week above what they are presently paying.

This is one example of the need to look at the totality of Labor's proposals when assessing their economic impact.

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When account is also taken of the impact of a blowing out deficit on wages policy - in a context of full wage indexation - the inflationary prospect becomes even worse.

Double-digit inflation would be a realistic expectation in the course of 1978. The consequences for Australia's external account would be clear and unavoidable.

These are the fundamental reasons why Labor could not, under the proposals they have stated, get a swift pick-up in economic activity and a reduction in unemployment. There would be one clear result of Mr Whitlam's scheme to crack all Australia's problems in one crash spending spree: higher inflation, much higher interest rates, and soaring unemployment.